

DEE Development Engineers Limited

Company Overview:

DEE Development Engineering Ltd. is an engineering company specializing in process piping solutions for industries such as oil and gas, power, chemicals, and others. With over three decades of experience, the company provides high-pressure piping systems, piping spools, industrial fittings, and other products. The company is a leading global provider of process pipe solutions for complex industrial requirements. At present, it is the largest player in process piping solutions in India in terms of installed capacity.

Key Highlights:

1. Products offering: The company offers specialized process piping solutions, including engineering services and pre-fabrication services. The company's expertise covers engineering of process/power piping systems, pre-fabrication activities such as cutting, beveling, welding, radiography, post-weld heat treatment, hydro-testing, pickling, passivation, grit blasting, painting, and is working with complex metals.

2. New business verticals: The company has expanded into designing, engineering, fabricating, and manufacturing pilot plants from Palwal Facility III. Under this segment, it offers end-to-end solutions, including 3-D modeling, process simulation, control engineering, design, fabrication, and construction of pilot plants. The company's focus here is on serving the research needs of companies in sectors like oil and gas, petrochemicals, pharmaceuticals, and more, as well as educational research institutions. Government projects are awarded through competitive bidding, and the company is confident on their technical capabilities to compete. Private sector projects are typically awarded through negotiations.

3. Manufacturing facility: The company has seven manufacturing facilities located strategically across 5 locations in India and 1 in Thailand. The cumulative installed capacity as of FY23 stood at 94,500 MTPA. The company has initiated operations at the New Anjar Facility I with an installed capacity of 3,000 MTPA and plans to set up New Anjar Facility II with a proposed capacity of 9,000 MTPA, thus increasing the total capacity to 15,000 MTPA. Also, it has operationalized 6,000 MT capacity at Numaligarh Facility in Feb'24.

4. Customer base and order book: Over the past 35 years, the company has built long-term relationships with clients in various industries, and continues to attract new business due to the company's ability to meet customer requirements. The customer base includes both domestic and overseas clients, including Fortune 500 companies in India and multinational corporations. As of Dec'23, the total order book of Rs 828.7 cr, represents 139.16% of FY23 revenue.

Valuation: The company's revenue has grown at a CAGR of 10% between FY21 – FY23. The company has initiated the capacity expansion plans as mentioned above which would help it to increase the financial performance going ahead. Further, the company is also deleveraging its balance sheet by reducing debt. On industrial front, the Indian pipe process industry has decent growth outlook and is expected to grow at the CAGR of 6.1% between FY23 to FY30 supported by Oil and Gas, Chemicals/Petrochemicals, Ethanol, Biomass and Increasing electricity consumption (Source: RHP). At upper price band of Rs 203, the company is valued at the PE multiple of 108.1x/73.3x based on FY23/FY24E (Annualised) earnings on post-issue capital respectively. The company is raising funds through fresh issue to meet working capital requirement and repayment of borrowings.

Issue Details	
Date of Opening	19 th June 2024
Date of Closing	21 st June 2024
Price Band (Rs)	193 - 203
Offer for sale (Equity shares)	45,82,000
Fresh Issue (Rs cr)	325
Issue Size (Rs cr)	418 @ Upper Price Band
No. of shares	2,14,21,378 – 2,05,91,852
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	1,348 – 1,401
BRLMs	SBI Capital Markets Limited, Equirus Capital Private Limited
Registrar	Link Intime India Private Limited
Bid Lot	73 shares and in multiple thereof
Employee Reservation	Equity Shares aggregating up to Rs 1 cr
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	Estimated utilization from net proceeds (Rs cr)
Funding working capital requirements of the Company	75.0
Funding our working capital requirements	175.0
General corporate purposes*	_*
Total proceeds from fresh issue	325.0

* To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount utilised for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	5,30,39,040	100.0
Public & Others	0	0.0
Total	5,30,39,040	100.0

Post Issue @Lower Price Band		
	No. of Shares	%
Promoter & Promoter Group	4,84,57,040	69.3
Public & Others	2,14,21,378	30.7
Total	6,98,78,418	100.0

Post Issue @Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	4,84,57,040	70.2
Public & Others	2,05,91,852	29.8
Total	6,90,48,892	100.0

Source: RHP, SSL Research

Key Financials

	FY21	FY22	FY23	9MFY24
Revenue from operation (Rs cr)	495	461	595	546
EBITDA (Rs cr)	54	65	69	68
PAT (Rs cr)	14	8	13	14
EBITDA Margin (%)	10.8	14.0	11.6	12.5
PAT Margin (%)	2.9	1.8	2.2	2.6
ROE (%)	3.1	2.0	3.1	3.3*
ROCE (%)	5.1	5.5	6.5	5.6*
Total Debt / Equity	0.6	0.7	0.8	0.9*

* Not Annualized

Source: RHP, SSL Research

Risk Factors

- **Maintaining quality standards:** Failure to meet high quality standards and performance requirements may lead to cancellation of orders, product recalls, financial penalties, and damages to the reputation and financial stability.
- **Disruption in manufacturing activities:** The performance of the company is dependent upon the smooth functioning of manufacturing facilities. Any interruptions in the operations such as shutdowns, strikes or disruption in production could affect business and financial operation of the company.
- **Industrial slowdown:** Any downturn in the oil and gas, power (including nuclear), process industries and chemical sectors would create an adverse impact on the revenue from operations, cash flows and financial conditions.
- **Revenue concentration:** The company relies heavily on some customers for revenue (71% revenue from top 10 customers). For most of the customers, the company do not have long-term contracts. If any of these customers choose not to buy products from the company or end their contracts, it could harm the business and finances of the company.

Growth Strategy

- Increasing focus on high margin products with additional contributions from modular skids and usage of high-grade materials which offers better margin contribution.
- Drive automation across the facilities and processes to bring in operational efficiencies.
- Forging technology tie-ups with select global OEMs to derive consistent order flow and provide integrated specialized process piping solutions thus making DEE a preferred partner.
- Focus on deleveraging of balance sheet and maintaining financial flexibility

Installed Capacity

Facilities	FY21		FY22		FY23		9MFY24	
	Installed Capacity (In MTPA)	Capacity Utilisation (in %)	Installed Capacity (In MTPA)	Capacity Utilisation (in %)	Installed Capacity (In MTPA)	Capacity Utilisation (in %)	Installed Capacity (In MTPA)	Capacity Utilisation (in %)
Palwal Facility I	9,000.0	5.2%	9,000.0	5.6%	9,000.0	5.6%	6,750.0	5.5%
Palwal Facility II	3,000.0	42.4%	3,000.0	60.8%	3,000.0	67.1%	2,250.0	50.4%
Palwal Facility III	24,000.0	48.9%	24,000.0	42.1%	24,000.0	78.8%	18,000.0	107.0%
Barmer Facility	-	-	5,000.0	31.3%	5,000.0	55.0%	3,750.0	79.0%
Anjar Facility I	-	-	-	-	3,000.0	41.6%	2,250.0	64.8%
Bangkok Facility	14,500.0	19.3%	14,500.0	23.9%	14,500.0	39.3%	10,875.0	39.8%
Anjar Heavy Fabrication Facility	36,000.0	21.5%	36,000.0	21.2%	36,000.0	26.6%	27,000.0	26.0%

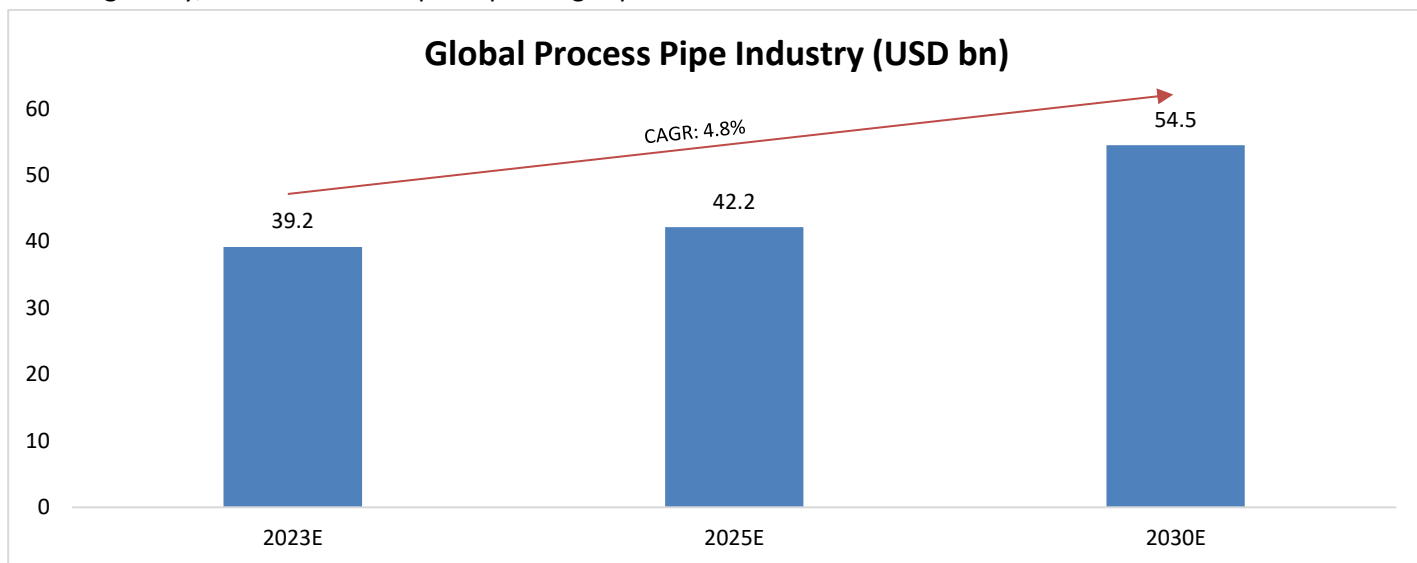
Order Book

Sectors in which customers operate	Order book (Rs cr) (As of Dec'23)	As a % of revenue from operations in FY21	As a % of revenue from operations in FY22	As a % of revenue from operations in FY23	As a % of revenue from operations in 9MFY24
Oil and gas	611.7	123.5%	132.7%	102.7%	112.1%
Power (including nuclear)	201.7	40.7%	43.8%	33.9%	37.0%
Process industries	15.4	3.1%	3.3%	2.6%	2.8%
Total	828.7	167.3%	179.9%	139.2%	151.9%

Customers	Order book (Rs cr) (As of Dec'23)	As a % of revenue from operations in FY21	As a % of revenue from operations in FY22	As a % of revenue from operations in FY23	As a % of revenue from operations in 9MFY24
Domestic Customers	546.0	110.3%	118.5%	91.7%	100.1%
Overseas Customers	282.7	57.1%	61.3%	47.5%	51.8%
Total	828.7	167.3%	179.8%	139.2%	151.9%

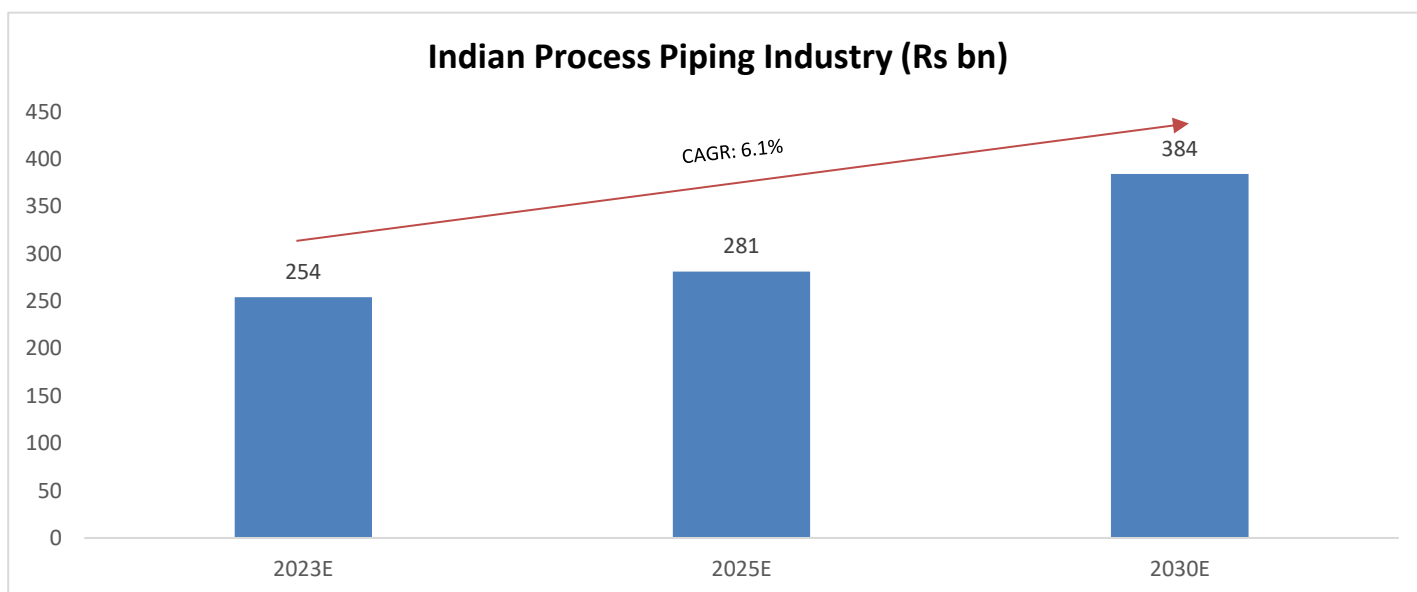
Industry Overview

Global process pipe industry: The global process piping solutions market is expected to reach USD 54.5 bn by 2030, growing at a CAGR of 4.8% from 2023. Asia Pacific, particularly China and India, is set to lead this growth with increased capital expenditure in the manufacturing sector. The Indian government aims to increase the manufacturing sector's GDP share to 25% by 2025 and has implemented initiatives such as Make in India and the Production Linked Incentive (PLI) Scheme to support the growth. Demand for process piping solutions will be primarily driven by the chemical and petroleum refining sectors in Asia Pacific and globally, with increased capital spending expected in these sectors.



Source: RHP, SSL Research

Indian process piping industry: The Indian market for process piping is projected to reach Rs 384 bn by 2030 growing at a CAGR of 6.1% between 2023 to 2030. Except for power plants, all user segments are expected to experience strong growth. The transition from coal to renewable power may moderate demand from power plants, but opportunities in alternative energy generation like ethanol and green hydrogen are expected to compensate for this slower growth. The chemicals and petroleum refining sectors are expected to maintain their dominance, with strong capital inflows to support capacity expansion plans. Specialty chemicals in the chemical sector and initiatives to favor petrochemical feedstock in petroleum refining are anticipated to be key demand drivers.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
Revenue from Operations	495	461	595
YoY growth (%)	-	(6.9)	29.2
Cost Of Revenues (incl Stock Adj)	236	172	190
Gross Profit	259	289	405
Gross margins (%)	52.3	62.7	68.1
Employee Cost	74	79	111
Other Operating Expenses	131	145	225
EBITDA	54	65	69
EBITDA margins (%)	10.8	14.0	11.6
Other Income	18	10	19
Net Interest Exp.	27	25	30
Depreciation	36	36	38
Exceptional Items	0	0	0
PBT	9	13	20
Tax	-5	5	7
PAT	14	8	13
PAT margin (%)	2.9	1.8	2.2
EPS	2.7	1.5	2.4

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
Assets			
Net Block	360	345	365
Capital WIP	2	4	3
Intangible Assets	2	2	3
Right of use assets	5	4	10
Other Non-current Assets	13	20	23
Current Assets			
Inventories	184	242	289
Trade receivables	198	153	173
Cash and Bank Balances	32	25	33
Other Current Assets	39	49	67
Total Current Assets	454	470	562
Current Liabilities & Provisions			
Trade payables	77	104	132
Other current liabilities	17	16	22
Short-term provisions	1	2	2
Total Current Liabilities	96	122	157
Net Current Assets	358	348	405
Total Assets	740	724	809
Liabilities			
Share Capital	16	11	11
Reserves and Surplus	439	401	413
Total Shareholders' Funds	454	412	424
Total Debt	257	285	353
Long Term Provisions	1	0	0
Lease Liabilities	5	5	11
Other Long-Term Liabilities	1	1	2
Net Deferred Tax Liability	21	20	20
Total Liabilities	740	724	809

Cash Flow (Rs)	FY21	FY22	FY23
Cash flow from Operating Activities	96	67	14
Cash flow from Investing Activities	(7)	(22)	(52)
Cash flow from Financing Activities	(88)	(50)	40
Free Cash Flow	94	65	11

RATIOS			
	FY21	FY22	FY23
Profitability			
Return on Assets (%)	1.7	1.0	1.3
Return on Capital (%)	5.1	5.5	6.5
Return on Equity (%)	3.1	2.0	3.1
Margin Analysis			
Gross Margin (%)	52.3	62.7	68.1
EBITDA Margin (%)	10.8	14.0	11.6
Net Income Margin (%)	2.9	1.8	2.2
Short-Term Liquidity			
Current Ratio (x)	1.5	1.3	1.2
Quick Ratio (x)	0.9	0.6	0.6
Avg. Days Sales Outstanding	146	122	106
Avg. Days Inventory Outstanding	136	192	177
Avg. Days Payables	57	82	81
Fixed asset turnover (x)	1.4	1.3	1.6
Debt-service coverage (x)	0.2	0.2	0.2
Long-Term Solvency			
Total Debt / Equity (x)	0.6	0.7	0.8
Interest Coverage Ratio (x)	1.3	1.5	1.7
Valuation Ratios			
EV/EBITDA (x)	24.2	20.7	20.2
P/E (x)	75.8	131.4	83.0
P/B (x)	2.4	2.6	2.5
EV/Sales (x)	2.6	2.9	2.3

Source: RHP, SSL Research

Peer Comparison

	DEE Development Engineers Ltd.		ISGEC Heavy Engineering Limited
	9MFY24 (Annualised)		FY24
CMP (Rs)	193.0	203.0	1224.0
Sales (Rs cr)	727.4	727.4	6219.0
EBITDA (Rs cr)	90.6	90.6	498.0
Net Profit (Rs cr)	19.1	19.1	255.0
M.Cap (Rs cr)	1348.7	1401.7	9003.0
Enterprise Value (Rs cr)	1394.7	1447.8	9626.0
EBITDA Margin (%)	12.5	12.5	8.0
Net Profit Margin (%)	2.6	2.6	4.1
EV/Sales (x)	1.9	2.0	1.5
PE(x)	70.6	73.3	35.3
EV/EBITDA (x)	15.4	16.0	19.3
RoE (%)	2.5	2.5	10.1
RoCE (%)	5.4	5.4	11.8

The data is based on FY24 financial data.

For DEE Development Engineers Limited the Market cap, PE(x), and EV/EBITDA(x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 13th June, 2024.

Source: RHP, SSL Research

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SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

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